

Gold

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## Case For Constructing Portfolios with SPDR® Shares (GLD®)

### Strategic Allocation to GLD in a Global Multi-Asset Portfolio

A recent paper, "A Case for Global Diversification: Harnessing the Global Multi-Asset Market Portfolio" by State Street Global Advisors Investment Solutions Group (ISG),<sup>1</sup> examined the global investable opportunity set and its implications for investors. They defined the Global Multi-Asset Market Portfolio (GMP) as the portfolio consisting of all investable capital assets, where the proportion invested in each asset corresponds to that asset's market value divided by the sum of the market value of all assets in the portfolio. It is the sum of all investors' holdings and a de facto proxy for the investable opportunity set available to all investors globally, or what is usually known as the 'market portfolio.'

We examined the results of adding an allocation to GLD comprising 2%, 5%, and 10% of a multi-asset portfolio under a hypothetical scenario. The hypothetical portfolio is based on the concept of the GMP developed by State Street Global

Advisors ISG and incorporates additional assumptions for the purpose of our case study. We constructed the hypothetical global multi-asset portfolio by:

- Replicating the asset classes in the GMP with noninvestable market indices;
- Slightly adjusting each asset weighting in the GMP to also include commodities in the portfolio and assume no gold exposure at the start (Portfolio A) and;
- Subtracting the weight equally from the equities and government-bonds asset classes (two asset classes with the highest weights) to add in GLD at 2% (Portfolio B), 5% (Portfolio C) and 10% (Portfolio D).

Returns of the hypothetical blended portfolios cover the period between January 1, 2005 and September 30, 2019, and the hypothetical portfolios were rebalanced every 12 months to maintain target portfolio weights. From the results shown in Figure 1, we found that under our hypothetical scenario:

Figure 1 Hypothetical Blended Portfolio Results

Portfolio	GLD Allocation %	Annualized Return %	Cumulative Return %	Annualized Standard Deviation %	Sharpe Ratio*	Maximum Drawdown (%)
A	0	5.69	126.10	9.44	0.46	-33.29
B	2	5.75	128.25	9.38	0.47	-32.54
C	5	5.88	132.27	9.29	0.49	-31.39
D	10	6.07	138.50	9.23	0.52	-29.43

\*Assumes risk-free rate of Citigroup 3-month T-bills. Source: Bloomberg Finance L.P., FactSet State Street Global Advisors, as of September 30, 2019. Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Returns do not represent those of a specific product managed by State Street Global Advisors Funds Management, Inc, but were achieved by mathematically combining the actual performance data of the constituents as listed in Figure 1, according to their weightings detailed in Figure 1. Performance of the hypothetical blended portfolio assumes no transaction and rebalancing costs, so actual results will differ. Performance of SPDR® Gold Shares (GLD®) reflects annual expense ratio of 0.40 percent. All data based on monthly measures of performance. GLD's performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit spdrs.com for most recent month end performance.

- Portfolios B, C and D had higher Sharpe ratios, lower maximum drawdowns and lower standard deviations with higher returns compared to Portfolio A;
- Portfolio D had the highest Sharpe Ratio (0.52) and highest cumulative return (138.50%);
- Portfolio D had the lowest maximum drawdown (-29.43%).

The results illustrated that under this hypothetical scenario using broad indices to represent various asset

classes that includes allocations of anywhere from 2% to 10% to GLD right after the ETF's inception, the portfolios with allocations to GLD (Portfolios B, C and D) have outperformed the multi asset portfolio with identical exposure to indices but without equivalent allocations to GLD (Portfolio A). From an asset allocation perspective, hypothetical portfolios with a GLD allocation had better risk-adjusted returns.<sup>1</sup>

Figure 2  
Asset Class Weightings for Hypothetical Blended Portfolios A, B, C and D

Asset Class	Investable Market Indices & ETF	Weighting (%)			
		Portfolio A	Portfolio B	Portfolio C	Portfolio D
Equity	MSCI AC World Daily TR Index	40	39	37.5	35
<b>Total Equity</b>		<b>40</b>	<b>39</b>	<b>37.5</b>	<b>35</b>
Government Bonds	Bloomberg Barclays Global Aggregate Government Bond Index TR	25	24	22.5	20
IG Credit	Bloomberg Barclays Global Aggregate Corporation Bond TR Index	10	10	10	10
Inflation Linked Bonds	Bloomberg Barclays World Inflation Linked Bond TR Index	2	2	2	2
HY Bonds	Bloomberg Barclays Global Corporate High Yield Bond TR Index	2	2	2	2
EM Debt	Bloomberg Barclays Emerging Markets USD Aggregate Bond TR Index	5	5	5	5
<b>Total Total Fixed Income</b>		<b>60</b>	<b>40</b>	<b>47.5</b>	<b>46</b>
Real Estate	Global Property Research General TR Index	4	4	4	4
Private Equity	LPX Composite Listed Private Equity TR Index	4	4	4	4
Commodities	Bloomberg Commodity Index TR	2	2	2	2
Gold	SPDR® Gold Shares (GLD®)	0	2	5	10
<b>Total Alternative</b>		<b>10</b>	<b>12</b>	<b>15</b>	<b>20</b>
<b>Portfolio Total</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: State Street Global Advisors, as of September 30, 2019.

The asset allocation scenario is for hypothetical purposes only and is not intended to represent a specific asset allocation strategy or recommend a particular allocation. Each investor's situation is unique and asset allocation decisions should be based on an investor's risk tolerance, time horizon and financial situation. It is not possible to invest directly in an index.

Figure 3  
SPDR Gold Shares Standard Performance as of September 30, 2019

	1 Month (%)	QTD (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	Since Inception 11/18/2004 (%)
NAV	-2.85	5.31	15.55	24.61	3.53	3.66	3.66	8.06
Market Value	-3.39	4.26	14.53	23.16	3.39	3.62	3.46	7.91
LBMA Gold Price PM	-2.82	5.42	16.13	25.10	3.95	4.07	4.08	8.49

Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit [sodrs.com](http://sodrs.com) for most recent month end performance. Gross Expense Ratio: 0.40%. The gross expense ratio is the fund's total annual operating expense ratio. It is gross of any fee waivers or expense reimbursements. It can be found in the fund's most recent prospectus.

## Endnotes

- 1 Frederic Dodard and Abigail Greenway, A Case For Global Diversification: Harnessing the Global Multi-Asset Market Portfolio, IQ Insights, State Street Global Advisors ISG EMEA, 2016.

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### Glossary

**Hypothetical blended portfolio performance methodology** Returns do not represent those of a fund but were achieved by mathematically combining the actual performance data of MSCI AC World Daily TR Index, Bloomberg Barclays Global Aggregate Government Bond Index, Bloomberg Barclays Aggregate Global Corporate Bond Index, Bloomberg Barclays Emerging Markets Debt Index, Global Property Research General Index, S&P Listed Private Equity Index, Bloomberg Barclays World Inflation Linked Bond Index, Bloomberg Barclays Global Corporate High Yield Index, S&P GSCI Index, and SPDR® Gold Shares (GLD®) between January 1, 2006 and June 30, 2019. Each portfolio is re-balanced at the beginning of each year to maintain target portfolio weights. The performance assumes no transaction and rebalancing costs, so actual results will differ.

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The value of GLD shares relates directly to the value of the gold held by GLD (less its expenses), and fluctuations in the price of gold could materially and adversely affect an investment in the shares. The price received upon the sale of the shares, which trade at market prices, may be more or less than the value of the gold represented by them. GLD does not generate any income, and as GLD regularly sells gold to pay for its ongoing expenses, the amount of gold represented by each Share will decline over time to that extent.

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